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**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION**

**MINUTES OF MEETING  
OCTOBER 19, 2005**

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A meeting of the Board of Administration was held on Wednesday, October 19, 2005 at the Holiday Inn on the Bay, 1355 Harbor Drive, San Diego, California.

The meeting was called to order at 9:00 a.m. by Board President Rob Feckner.

The Secretary called the roll and the following Board members were present:

Rob Feckner, President  
Robert Carlson, Vice President  
Ron Alvarado  
James Zerio representing Philip Angelides  
Marjorie Berte  
George Diehr  
Priya Sara Mathur  
Debbie Endsley representing Michael Navarro  
Tony Oliveira  
Kurato Shimada  
Charles Valdes  
Nick Smith representing Steve Westly

Board Members Excused:  
Michael Quevedo

**AGENDA ITEM 3 – ANNOUNCEMENT OF CLOSED SESSION**

Mr. Feckner announced that a Closed Session of the Board of Administration would be held immediately preceding the oral report of Agenda Item 10 – the Performance and Compensation Committee to consider the Committee's closed session recommendations.

**AGENDA ITEM 4 – APPROVAL OF THE SEPTEMBER 21, 2005 MEETING MINUTES**

**ON MOTION** by Ms. Mathur, **SECONDED** and **CARRIED**, the Board approved the minutes of the September 21, 2005 meeting.

**AGENDA ITEM 5 – CHIEF INVESTMENT OFFICER'S/ASSISTANT EXECUTIVE OFFICER'S REPORT**

Mr. Anson, Chief Investment Officer, presented this report to the Board. The Producer Price Index Inflation Report (PPI) showed an increase for September of 1.9%, the highest rise in 15 years. The Consumer Price Index (CPI) increased over 1%. While profit growth in the United States has been robust with the S & P 500 companies growing over 13%, it is

expected that profit growth will be trimmed to approximately 10%. Third quarter GDP estimates have been lowered to approximately 3.1% from 3.5% as a result of higher interest rates and high inflation expectations.

## **AGENDA ITEM 6 – INVESTMENT COMMITTEE**

Mr. Valdes, Chair of the Investment Committee, presented this report to the Board. The Committee met on Monday, October 17 and considered a number of items. (Additional information may be found in the October 17, 2005 agenda materials and/or transcripts of the Investment Committee meeting.)

### ***Agenda Item 4 – Real Estate***

#### **a. Equity Real Estate Leverage Policy**

The Committee:

1. Affirmed that the Investment Committee previously approved the selective use of CalPERS guarantees on Lines of Credit or other financing vehicles when it is in CalPERS' economic benefit to do so and only when authorized by the Senior Investment Officer of Real Estate.
2. Established an overall limit in the aggregate amount of CalPERS guarantees of the above type of debt instruments (exclusive of subscription facilities). These guarantees will not, in the aggregate, exceed 25% of the real estate portfolio target allocation.

### ***Agenda Item 5 – Alternative Investment Management Program***

#### **a. AIM Strategic Review**

The Committee accepted the AIM 2005 Strategic Program Review. An action plan will be presented at the December 2005 Investment Committee meeting.

### ***Agenda Item 6 – Global Fixed Income***

#### **a. Global Fixed Income Annual Plan**

The Committee approved the 2005-06 Global Fixed Income Annual Plan.

### ***Agenda Item 7 – Global Equity***

#### **a. Global Equity Annual Plan**

The Committee approved the 2005-06 Global Equity Annual Plan.

#### **b. PacifiCare – UnitedHealth Group Merger**

The Committee:

1. Directed staff to oppose the executive compensation packages and to express concerns to the companies and urge them to unwind the compensation packages from the merger.
2. Directed staff to write to the Department of Managed Health Care to urge them as part of their review of the merger to unwind the executive compensation packages.

The Chair directed Investment staff to work with Health staff to assess the costs of the merger on California consumers.

***Agenda Item 9 – Policy Subcommittee Report***

By consent, the Committee approved the following:

- a. Equity Policies
  - 1) Revision of Corporate Governance Fund Investment Vehicles – Externally Managed.
- b. Fixed Income Policies
  - 1) Revision of Active International Fixed Income – Externally Managed
  - 2) Revision of Dollar Denominated Fixed Income Program
- c. Real Estate Policies
  - 1) Revision of the Extended Market Public Real Estate Equity Securities (Extended Market PREES)
  - 2) Revision of Equity Real Estate
  - 3) Revision of International Equity Real Estate
- d. Administrative
  - 1) Revision of “Watchlist Status” Definition in Glossary
  - 2) Revision of “Shareholder” to “Shareowner”
  - 3) Proposed December 2005 Agenda
  - 4) Meeting Schedule – 2006

***Agenda Item 10 – Chief Investment Officer’s/Assistant Executive Officer’s Report***

- a. Consolidated Investment Activity Report

The Committee accepted the Consolidated Investment Activity Report. The total market value of the Fund as of August 21, 2005 was approximately \$196.0 billion and the total book value was approximately \$150.2 billion.

The next meeting of the Committee is scheduled for November 14, 2005 in Sacramento, California.

**AGENDA ITEM 7 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE**

Mr. Shimada, Chair of the Benefits and Program Administration Committee, stated that the Committee has not met since its previous report to the Board.

The next meeting of the Committee will be held on November 15, 2005 in Sacramento, California.

**AGENDA ITEM 8 – HEALTH BENEFITS COMMITTEE**

Mr. Diehr, Chair of the Health Benefits Committee, presented this report to the Board. The Committee met on Tuesday, October 18 and considered a number of items. (Additional information may be found in the October 18, 2005 agenda materials and/or transcripts of the Health Benefits Committee meeting.)

***Agenda Item 2 – Announcement of Special Session***

The Chair announced that a special session, 10:00 a.m., time certain, would be held upon the conclusion of the Health Benefits Committee meeting to conduct the Request for Proposal – Pharmacy Benefit Manager for the Self-Funded Plans Semi-Finalist Interviews and Selection.

***Agenda Item 4 – Medicare Part D Implementation***

Richard Krolak presented eight Medicare Part D Implementation options for consideration.

By vote of the Committee this item is being deferred to the November 2005 meeting.

***Agenda Item 5 – Proposed Amendments to 2006 CCPOA Health Benefits Plan***

Richard Krolak presented information on the proposed amendments to the CCPOA Health Benefits Trust Plan and informed the Committee that CalPERS recently received a similar proposal from the PORAC Trust Fund.

By vote of the Committee this item is being deferred to the November 2005 meeting.

***Agenda Item 6 – Assistant Executive Officer Report***

Terri Westbrook had no items to report.

***Agenda Item 7 – Proposed Agenda for the November 15, 2005 Health Benefits Committee Meeting***

The proposed November 15, 2005 Health Benefits Committee meeting agenda was accepted with the following additions:

- Medicare Part D Implementation
- Proposed Amendments to 2006 CCPOA and PORAC Health Benefits Plans

The next meeting of the Committee is scheduled for November 15, 2005 in Sacramento, California.

***Health Benefits Committee Special Session***

On Tuesday, October 18, 2005 at 10:00 a.m. time certain, the Health Benefits Committee met for a Special Session to conduct the Request for Proposal – Pharmacy Benefit Manager for the Self-Funded Plans Semi-Finalist Interviews and Selection.

The Committee interviewed Caremark, Express Scripts, Medco and WellPoint as the four Pharmacy Benefit Manager semi-finalists.

The Board approved the Committee's selection of Medco as the finalist and further further directed that staff begin contract negotiations for RFP Number 2004-3521, and that in the event staff, in its discretion, concludes that negotiations are unsuccessful, staff should begin

contract negotiations with the next highest scoring finalist in succession, Express Scripts, until agreement is reached. Mr. Zerio representing the State Treasurer's Office, voted NO.

**AGENDA ITEM 9 – FINANCE COMMITTEE**

Mr. Carlson, Chair of the Finance Committee, stated that the Committee has not met since its previous report to the Board.

The next meeting of the Committee will be held on November 10, 2005 in Sacramento, California.

**AGENDA ITEM 10 – PERFORMANCE AND COMPENSATION COMMITTEE**

Ms. Mathur, Acting Chair of the Performance and Compensation Committee, presented this report to the Board. The Committee met on October 14 and considered a number of items. (Additional information may be found in the October 14, 2005 agenda materials and/or transcripts of the Performance and Compensation Committee meeting.)

***Agenda Item 3 – 2005-06 Performance Plan Measures for the Chief Executive Officer (Second Reading)***

The Board approved the Second Reading of the 2005-06 Performance Plan Measures for the Chief Executive Officer.

***Agenda Item 4 – Human Resources Division Report***

As an information item, staff presented a report on CalPERS efforts to obtain approval to use existing Department of Health Services classifications for a number of positions in the Health Benefits Branch. These classifications more accurately describe the work of the positions and would enable CalPERS to recruit candidates with the necessary qualifications and experience in health-related fields.

***Agenda Item 5 – Proposed December 2005 Agenda***

The draft agenda for the December 2005 Committee meeting was reviewed and accepted.

The next meeting of the Committee is scheduled for December 9, 2005 in Sacramento, California.

At this point in the proceedings the Board recessed the open session meeting to conduct a closed session.

**AGENDA ITEM 10-A – PERFORMANCE AND COMPENSATION COMMITTEE CLOSED SESSION REPORT**

The Board reconvened the open session meeting.

Mr. Feckner reported that the Board had considered personnel actions regarding the recommendation from the Performance and Compensation Committee to adopt an annual performance award for the Chief Executive Officer.

By a vote of 10 YES, 0 NO and 1 ABSTENTION, the Board approved an annual performance award for the Chief Executive Officer for the 2004-05 fiscal year.

By a vote of 10 YES, 0 NO and 1 ABSTENTION, the Board approved a base pay adjustment for the Chief Executive Officer to be effective July 1, 2005.

#### **AGENDA ITEM 11 – AD HOC BOARD GOVERNANCE COMMITTEE**

Mr. Feckner, Chair of the Ad Hoc Board Governance Committee stated that the Committee had not met since its previous report to the Board.

The next meeting is scheduled for December, 2005 in Sacramento, California, date and time to be determined.

#### **AGENDA ITEM 12 – 2005 MEMBER-AT-LARGE BOARD ELECTION PROCESSES AND BALLOT COUNTING**

Mr. Mixon, CalPERS General Counsel, presented this item which was added by the Board president in response to requests from several Board members to discuss the member-at-large Board election processes and ballot counting processes. The addition of this item to the agenda was pursuant to Government Code Section 11125.3. Appropriate notice was given.

Since the original agenda was posted, the ballot canvassing of the Board Member election for this year has been completed, the results have been posted and the candidates have been notified.

If no action is taken by the Board, staff will proceed to print the ballots for a run-off election based on the original canvassing. If the Board desires to take action which is different from that process, it will need to do so immediately.

The Position A election is for the position currently held by Mr. Valdes. Mr. Valdes did not receive 50% plus 1 vote, which is required to avoid a run-off election. The results have been posted notifying both candidates and the public at large that there will be a run-off.

Following discussion on the item it was **MOVED** by Mr. Carlson and **SECONDED** that the Board approve the following:

- A re-canvass at no cost to the System.
- The re-canvass will not in anyway impact or affect the timeline for the runoff election and will not, in any way, harm the other candidate or myself.
- The ability to, under supervised conditions, look at the contested ballots for my own and my committee's assurance.

Mr. Mixon stated that before the Board takes any action there needs to be a determination, by a two-thirds approval vote of this body, that there exists a need to take immediate action, and that the need for action came to the attention of this body subsequent to the agenda being posted, as outlined in the circumstances at the start of this item. Two-thirds of this Board needs to make these findings.

**IT WAS MOVED** by Mr. Carlson and **SECONDED** that a determination needs to be made by a two-thirds approval vote of this body, that there exists a need to take immediate action, and that the need for action came to the attention of this body subsequent to the agenda being posted, as outlined in the circumstances in advance of the start of this item.

A roll call vote was requested and the results were as follows:

Ron Alvarado	NO
James Zerio for	
Philip Angelides	NO
Marjorie Berte	NO
George Diehr	NO
Priya Mathur	NO
Debbie Endsley for	
Michael Navarro	NO
Tony Oliveria	NO
Kurato Shimada	YES
Nick Smith for	
Steve Westly	YES
Robert Carlson	YES

With a vote of 7 NO and 3 YES, the **MOTION FAILED**.

#### **AGENDA ITEM 12A– BOARD MEETING CALENDAR**

Mr. Buenrostro presented this item. There were no changes to the Board's meeting calendar.

#### **AGENDA ITEM 13 – CHIEF EXECUTIVE OFFICER'S REPORT**

Mr. Buenrostro introduced Edwina Diaz and Tish MacElroy from the San Diego Regional Office, and Guy Schneider from the San Bernardino Regional Office.

#### **AGENDA ITEM 14 – BOARD'S LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION**

Lisa Hammond, Chief of the Office of Governmental Affairs, presented this report to the Board. All of the bills updated at the previous Board meeting, with the exception of CalPERS pension legislation, were signed by the Governor and become effective January 1, 2006.

#### **AGENDA ITEM 15 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION**

Tom Lussier, CalPERS Federal Legislative Liaison, provided information on the following:

- Legislation enacted by the Senate Health, Education, Labor and Pension Committee dealing with some bio-terrorism related drugs and involve some patent extensions.
- Pension reform legislation currently pending in the Senate.
- Initial recommendations from the President's Tax Reform Panel.

## **AGENDA ITEM 16 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES**

A request was made that item 16B – the matter of Gregg D. Lusher, be withdrawn for further discussion.

**ON MOTION** by Mr. Valdes, **SECONDED** and **CARRIED** the Board adopted staff's recommendations on Items A (the matter of David Van Cleve), Item C (the matter of Angela Hahn) and Item D (the matter of Debra Briddle).

Following discussion, it was **MOVED** by Mr. Valdes and **SECONDED** to adopt the following resolution in the matter of Gregg D. Lusher:

RESOLVED that the Board of Administration of the California Public Employees' Retirement System, after consideration of the Proposed Decision dated August 9, 2005 concerning the application of Gregg D. Lusher, hereby determines to decide the matter itself; RESOLVED FURTHER that the Board's decision shall be made after notice is given to all parties, based upon the record produced before the administrative law judge and written and oral argument presented by the parties.

### **SUBSTITUTE MOTION**

**ON MOTION** by Mr. Alvarado, **SECONDED** and **CARRIED**, the Board adopted the following resolution in the matter of Gregg D. Lusher:

RESOLVED that the Board of Administration of the California Public Employees' Retirement System, after consideration of the Proposed Decision dated August 9, 2005 concerning the application of Gregg D. Lusher, hereby determines to refer the matter back to the administrative law judge for the taking of additional evidence.

## **AGENDA ITEM 17 – PETITION FOR RECONSIDERATION – DONNELL PETEAN**

**ON MOTION** by Ms. Endsley, **SECONDED** and **CARRIED**, the Board adopted staff's recommendation to deny the petition for reconsideration in the matter of Donnell Petean.

## **AGENDA ITEM 18 – GENERAL COUNSEL'S REPORT**

The Board accepted the Quarterly Litigation Report and Assignment Matrix as presented by Peter Mixon, CalPERS General Counsel.

## **AGENDA ITEM 19 – BOARD TRAVEL APPROVALS**

**ON MOTION** by Mr. Valdes, **SECONDED** and **CARRIED**, the Board approved the travel request contained in item C of the agenda item.



**AGENDA ITEM 20 – DRAFT AGENDA FOR THE NOVEMBER 16, 2005 MEETING**

The Board accepted the draft agenda for the November 16, 2005 meeting as presented.

There being nothing further to come before the Board of Administration, the meeting adjourned at 10:55 a.m.

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**FRED BUENROSTRO**  
**Chief Executive Officer**